ENTERPRISE FUNDS

Airport Operating Funds

Operating funds for the Airport Department consist of the following: the Airport Customer Facility and Transportation Fee Fund, the Airport Revenue Fund, the Airport Maintenance and Operation (M&O) Fund and the Airport Surplus Revenue Fund. For this presentation the Airport Fiscal Agent Fund is shown in a separate table below.

Airport Operating Funds

($000s)

	Budget	Actual	Variance	Percent Variance
Revenue	$ 225,166	$ 213,158	$ (12,008)	(5.3%)
Expenditure	240,393	216,509	23,884	9.9%
Fund Balance (est.)	32,146 *	41,706	9,560	29.7%

* *Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.*

The negative variance in revenues ($12.0 million) reflects reduced transfers from the Airport Revenue Fund that were unnecessary due to expenditure savings in operating programs and services. Transfers into Airport operating funds (budgeted at over $123 million) are reflected in the revenue variance and the expenditure variances above, but have no overall fiscal impact. Transfer amounts from the Airport Revenue Fund that were budgeted but unnecessary include $14.2 million to the Airport Maintenance and Operation Fund that resulted from both the institution of a successful Cost/Position Management Plan, as well as additional savings associated with departmental vacancies and unspent reserves. The reduced transfers were partially offset by higher than budgeted operating revenue as described below.

Actual revenues (without factoring in interfund transfers) in these four funds ended the year $2.2 million higher than budgeted. This variance reflects the combined total of lower contributions necessary from rental car companies ($497,000), offset by increased revenue collections in other categories ($2.7 million). Terminal Concessions, General and Non-Aviation, Airfield, Petroleum, and Landing Fee revenues all exceeded budgeted levels, and are due to many factors including, but not limited to, higher than anticipated rental car concessions, food and beverage concessions, Urban Area Security Initiative grant reimbursement of security costs by the Transportation Security Administration, rental fees, and interest income. Terminal Rental and Parking and Roadway revenues ended the year slightly below budgeted levels.

The expenditure variance shown above is the combination of savings, as well as transfers that were unnecessary as described above. The November 2006 Airport Cost/Position Management Plan identified approximately $2.4 million in departmental savings targets, as well as $2.4

ENTERPRISE FUNDS (CONT'D.)

Airport Operating Funds (Cont'd.)

million in overhead savings resulting from a reduction to the overhead rate. For 2006-2007, operating budget savings actually totaled $8.3 million in the Airport Maintenance and Operation Fund. Targeted savings were carefully determined to mitigate direct service impacts to Airport customers and were primarily the result of vacancy savings. The Airport carried an average of 45 vacancies over the course of the year, as hiring was restricted to only critical service areas. Overtime was also carefully managed with year-end savings of $13,000, remarkable considering the number of vacancies and need to enhance security related to the Orange Alert Level. The Airport continued to carefully manage supplies, services, training, electric utilities, computer data processing, and lease costs, all of which ended the year with greater than targeted savings. Rental Car program savings totaling $377,000, were the result of vacancy savings and a reduction in the shuttle bus fleet by 6 buses.

Additionally, savings related to FMC property lease payments ($82,000), workers' compensation claim costs ($736,000) and lower than anticipated police costs ($410,000) contributed to the overall surplus. These savings, combined with the conservative use of reserves, is reflected in the total expenditure variance.

The fund balance variance of $9.6 million was the combined result of factors discussed above, including lower than estimated transfers, and expenditure and reserve savings in the various Airport operating funds.

ENTERPRISE FUNDS (CONT'D.)

Airport Operating Funds (Cont'd.)

Airport Fiscal Agent Funds

($000s)

	Budget		Actual	Variance	Percent Variance
Revenue	$ 275,270		$ 22,524	$ (252,746)	(91.8%)
Expenditure	285,049		32,844	252,205	88.5%
Fund Balance (est.)	34,762	*	34,222	(540)	(1.6%)

* *Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.*

Performance of the Airport Fiscal Agent Fund is summarized in the chart above and reflects adjustments in the schedule of financing associated with Airport capital projects. The 2006-2007 Adopted Budget anticipated the long-term financing of a portion of North Concourse projects to take place during the year; however, funding from a previous issuance and the commercial paper program was sufficient to accommodate project needs in 2006-2007. As a result, no additional bonds were issued in 2006-2007 resulting in offsetting variances in both the revenue and expenditure categories. Long-term debt was issued for these projects in August 2007.

ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund

The General Purpose Parking Fund accounts for the operations of City parking facilities and parking meters. Financing and capital construction of parking facilities are also accounted for within this fund.

General Purpose Parking Fund

($000s)

	Budget		Actual	Variance	Percent Variance
Revenue	$ 9,214		$ 10,207	$ 993	10.8%
Expenditure	14,690		11,615	3,075	20.9%
Fund Balance (est.)*	11,816	*	13,045	1,229	10.4%

The positive revenue variance of $993,000 is due to higher than anticipated revenues collected in City parking lots ($1.1 million) and miscellaneous revenue ($24,000). These higher than anticipated revenue collections are slightly offset by lower than anticipated revenues collected in interest earnings ($68,000) and parking meters ($23,000). Parking lot and miscellaneous revenues increased primarily as a result of increased activities in the Almaden/Balbach Lot, Almaden and Woz Way Lot, and the Woz Way and Highway 87 lot due to Downtown special events that occurred in the past year.

Savings in the General Purpose Parking Fund for 2006-2007 resulted in a $3.1 million positive variance from budgeted program expenditures. The majority of the variance to budget is due to unexpended project funds in the Capital Program. When the 2007-2008 Adopted Capital Budget was developed, $771,000 was initially rebudgeted to complete capital improvements, which include the Parking Guidance System Phase II project ($662,000) and the Facility Improvements and Maintenance project ($109,000).

An adjustment of $1.4 million recommended in this report will rebudget the unexpended funds in the 2007-2008 Adopted Capital Budget. Adjustments are recommended for the following projects: Parking Guidance System Phase II project ($1.2 million); Facility Improvements and Maintenance ($105,000); and Revenue Control Upgrades ($13,000).

ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund (Cont'd.)

Most of the remainder of the expenditure variance was due to savings in non-personal/equipment costs for the Department of Transportation (DOT). Non-personal/equipment expenses for DOT were $178,000 (2.7%) below budgeted estimates due to contractual services and electricity costs savings. Also, personal services costs for DOT had savings of $126,000 due to staffing vacancies.

The positive variance of $1.2 million in the ending fund balance primarily reflects lower than estimated expenditures ($2.0 million) offset by lower than estimated revenues ($787,000).

ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds

The San José/Santa Clara Treatment Plant Operating Funds are used for the operation and maintenance of the sanitary sewer system and the regional San José/Santa Clara Water Pollution Control Plant (WPCP). Funds included in this category are the San José/Santa Clara Treatment Plant Operating Fund, San José/Santa Clara Treatment Plant Income Fund, Sewage Treatment Plant Connection Fee Fund, and the Sewer Service and Use Charge Fund.

San José/Santa Clara Treatment Plant Operating Funds

($000s)

	Budget		Actual	Variance	Percent Variance
Revenue	$ 150,909		$ 153,840	$ 2,931	1.9%
Expenditure	169,340		162,830	6,510	3.8%
Fund Balance (est.)	51,775	*	60,757	8,982	17.3%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

Revenues ended the year with a $2.9 million positive variance primarily due to higher than budgeted revenues in the Sewer Service and Use Charge Fund (SSUC) ($1.8 million). The main reasons for the variance in SSUC Fund were higher than budgeted sewer collections in the residential ($944,000) and industrial sectors ($248,000), miscellaneous revenues ($510,000) and interest earnings ($348,000). In the Sewage Treatment Plant Connection Fee Fund, actual connection fee receipts ($820,000) and interest earnings ($328,000) ended the year above budgeted levels. Higher loan repayment revenue ($960,000) from the Water Utility Capital Fund was also not anticipated. This was partly offset by less than anticipated revenue from Metcalf Energy Center ($310,000). Revenues in the San José-Santa Clara Treatment Plant Operating Fund ended the year higher than budgeted levels ($1.2 million) mainly from contributions from other agencies ($683,000) coupled with sales from recycled water ($413,000). Revenues in the San José-Santa Clara Treatment Plant Income Fund ended the year $2 million below budgeted levels due to an anticipated land sale that did not materialize.

Overall, expenditure savings of $6.5 million were generated, mainly resulting from savings in the San José/Santa Clara Treatment Plant Operating Fund ($1.9 million) and in the Sewer Service and Use Charge Fund ($4.6 million). The majority of savings in the San José/Santa Clara Treatment Plant Operating Fund were realized in the Environmental Services Departments appropriations ($1.6 million). Of these savings, $1.3 million was due to vacancy savings, and

ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds (Cont'd.)

$311,000 was attributed to miscellaneous non-personal/equipment savings. The majority of savings in the Sewer Service and Use Charge Fund can be attributed to vacancy savings ($1.2 million) and non-personal/equipment savings ($710,000) in the Department of Transportation. In addition, there were expenditure savings in categories such as sanitary sewer claims ($786,000), overhead costs ($687,000) and major litigation costs ($600,000). The savings of $786,000 reflected in the unexpended sanitary sewer claims, represent outstanding and anticipated claims. A rebudget of $41,000 is recommended in this report for Geographic Information System base map software purchase in Public Works Department.

The actual year-end fund balance exceeded estimates by $8.98 million. This was the combined result of higher than anticipated revenues and lower than expected expenditures described above. The higher than anticipated fund balance will be preserved for future administrative expenses or related capital projects.

ENTERPRISE FUNDS (CONT'D.)

Water Utility Fund

The Water Utility Fund supports the operations of the Municipal Water System, which provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. This fund is financed through user charges.

Water Utility Fund

($000s)

	Budget	Actual	Variance	Percent Variance
Revenue	$ 23,345	$ 22,459	$ (886)	(3.8%)
Expenditure	24,615	24,019	596	2.4%
Fund Balance (est.)	4,465 *	3,763	(702)	(15.7%)

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The negative revenue variance ($886,000) is the result of lower than budgeted Water Sales collections ($865,000), and interest earnings ($21,000). Water sales ended the year below expectations due to lower water usage.

Expenditure savings ($596,000) primarily resulted in the Environmental Services Department Non-Personal/Equipment appropriation ($285,000) and Personal Services appropriation ($269,000). The majority of this savings was due to lower than budgeted water purchases, savings in electricity costs, and vacancy savings.

The negative ending fund balance variance ($702,000) resulted from the combined impact of the lower than estimated revenues ($114,000) and expenditure savings ($816,000). There is no negative impact to programs in this fund as there is sufficient fund balance.